



THE TRUMP ERA AND THE TRADE ARCHITECTURE IN THE ASIA PACIFIC

Policy Report
May 2017

Chia-yi Lee and Su-Hyun Lee

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Introduction

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This policy report is born of the 2017 RSIS workshop titled “The Trump Era and the Trade Architecture in Asia Pacific”, which brought together experts in international political economy and trade from Australia, China, Japan, Singapore and the United States to discuss the transformation of the global and regional trade orders. At the workshop, participants offered various perspectives on the changing nature of the trade architecture in the Asia Pacific region amid the uncertainty brought on by Donald Trump’s election as U.S. president. The discussions covered a wide range of issues, including U.S. foreign policy, ongoing mega-regional free trade agreements, and the challenges and prospects of regional cooperation on trade and trade liberalisation.

The first panel delved into the continuities and changes in the Asia Pacific trade order, focusing on the great powers’ strategic interests in the region. Assistant Professors Su-Hyun Lee and Chia-yi Lee of RSIS began by outlining the major direction of U.S. trade policy under Trump and its potential impact on Asia, especially China. They maintained that Trump’s protectionist moves, such as the U.S. exit from the 12-nation Trans-Pacific Partnership (TPP) signed in February 2016 and the threat of high tariffs on China and Mexico and on American firms doing cross-border business, posed a significant threat not only to the trade architecture in the Asia Pacific region but also to the very principle of free trade that embodies the World Trade Organization (WTO), with its multilateral trading framework. Professor Zha Daojiong of Peking University emphasised that the Regional Comprehensive Economic Partnership (RCEP), a proposed free trade agreement involving ASEAN, China, Japan, Korea, India, Australia and New Zealand, was neither China-led nor part of China’s strategy to compete with the United States in the region. He argued that a third template, preferably the proposed Free Trade Area of the Asia Pacific (FTAAP) that includes both the United States and China, would be ideal for the Asia Pacific region. Professor Ikuo Kume of Waseda

University used survey evidence to show that Japanese Prime Minister Shinzo Abe had successfully sold the TPP to Japanese citizens because citizens linked the TPP to Abe's economic reforms and to national security. Professor Kume expected that Japan might turn to bilateral trade deals with the United States after the U.S. withdrawal from the TPP, although these would be difficult to sell domestically.

The second panel explored the future of trade under Trump from the perspectives of selected Asia Pacific countries. Reviewing Trump's key policies on industry and trade, Professor Pradumna Bickram Rana of RSIS argued that the United States was now leaning more towards isolationism, insularism and mercantilism. He suggested that the ASEAN countries diversify their sources of demand and enhance regional integration through multidimensional frameworks, including the RCEP, FTAAP and bilateral and plurilateral free trade agreements (FTAs) with non-regional actors (in particular, the European Union). Professor Danny Quah of the Lee Kuan Yew School at the National University of Singapore expressed his concern that the election of Trump was in line with the recent rise of far-right populism across several countries. Regarding the trade architecture in the region, he suggested that the multilateral trading system was still critically important to Singapore as 80 per cent of its trade was organised within global value chains. In this vein, Professor Quah emphasised the importance of the RCEP in spurring regional development and facilitating competitive liberalisation, as the RCEP negotiations include not only trade but also other areas, such as investment, economic and technical cooperation, intellectual property, competition, and dispute settlement. Associate Professor Jeffrey D. Wilson of Murdoch University and the Perth USAsia Centre pointed out that many governments in the Asia Pacific region had been more actively than ever pursuing bilateral free trade agreements owing to the strained trade relationships between the North and the South. While pointing out the so-called "noodle bowl" effect generated by bilateral trade deals, he maintained that the Asia Pacific's middle powers—Australia, Korea, and Indonesia—should re-establish the regional trade architecture with a more inclusive and integrated multilateral trading order and push harder for the completion of RCEP negotiations.

At a lunch talk during the workshop, Professor T.J. Pempel of the University of California, Berkeley, discussed the broad implications of the election of Trump for the Asia Pacific region. He argued that the Trump administration would

pose challenges to America's relations with Asia and the Asia Pacific region, as shown in the president's rejection of the TPP and the hostile attitudes of his foreign policy experts towards the idea of economic interactions with China. He strongly suggested that Asian leaders develop warm bilateral relationships with Trump and take advantage of the decreased U.S. presence in the region to make their own efforts at building cooperation.

Below are commentaries from six workshop participants delivering their thoughts on ongoing mega-regional FTAs and offering policy suggestions for Asia Pacific countries.

U.S. Trade Policy in the Trump Era and Its Impact on Asia

Su-Hyun Lee and Chia-yi Lee
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RSIS

How will the Trump administration affect American trade policy and the global trade regime? Since he announced his candidacy for the presidency in 2015, Donald Trump has firmly maintained his protectionist stance on the issues of trade and immigration. Throughout his campaign, Trump almost never stopped criticising existing trade deals and America's foreign trade partners, a stance that resonated well with his conservative white supporters. In his "100-day action plan to Make America Great Again", he clearly pledged to protect American workers through a set of protectionist measures, including withdrawal from the TPP, renegotiation of the North American Free Trade Agreement (NAFTA), and passing of an "End the Offshoring Act".

Some observers simply dismissed Trump's protectionist rhetoric as a bluff, just as they had shrugged off the possibility of his becoming president. Others read his continuous assault on trade as the return of protectionism as an issue in the 2016 presidential election, with the Democratic candidates being much more protectionist than they had been during the presidential primaries. Even Hillary Clinton said she would not support the TPP in its current form, whereas she had hailed it as the gold standard of trade agreements when she was secretary of state.

Nobody, however, seriously expected that Trump would be more than ready to deliver on his protectionist promises. His recent moves on two issue areas deserve our attention. First, Trump made it very clear that the United States would be departing from its multilateral trade commitments in favour of bilateral deals. Just five days after his inauguration, Trump signed an executive order that formally pulled out the United States from the TPP, the largest, hard-fought regional trade pact that the Obama administration had negotiated with 11 other Pacific-rim countries over the past four years. Around the same time, Wilbur Ross, Trump's nominee for the Commerce department said that NAFTA was "a very, very early topic" for the administration, signaling

Trump's strong willingness to renegotiate a multilateral agreement among the United States, Canada and Mexico. Second, Trump has been reaffirming his pledge to impose "tariffs" on American firms and certain countries in order to bring jobs back to America. Since taking office in January, Trump has already had several meetings in which he promised business leaders to slash regulations but impose big "border taxes" on American companies that offshore jobs and invest overseas.

What Trump has done over the past four weeks suggests that his campaign talks about slapping a 35 per cent tariff on Mexican imports and a 45 per cent tariff on Chinese imports should be taken more seriously, as the current institutional setting allows him to do so. The U.S. Congress had delegated authority to the executive to set tariffs and negotiate trade agreements through the Reciprocal Trade Agreements Act of 1934. Since then, executive authority over trade matters has been expanded and reaffirmed by the Trade Expansion Act of 1962 and the renewal of "fast-track authority", an expedited legislative procedure in which the president negotiates international trade agreements and Congress only accepts or rejects them without amendment. Such institutional arrangements were long regarded as the foundation for successive American presidents to pursue liberal trade policies but now give Trump enormous power to restrict trade.

Trump's protectionist attitudes have profound implications for U.S.-Asia relations, especially U.S.-China relations. His comments on China during the election campaign and in his first two weeks in office have drawn great attention from across the world. In order to induce companies to move back manufacturing jobs to the United States, Trump has vowed to raise tariffs on China to up to 45 per cent, which might harm China's economy seriously, with China's Gross Domestic Product (GDP) expected to be cut by 1-5 per cent. If subjected to such steep tariffs, China could retaliate in a number of ways, including levying higher taxes on U.S. firms based in China, reducing the American bonds that it holds, increasing tariffs on U.S. goods, and launching legal procedures through the WTO, although the last course of action will take a very long time.

Imposing higher tariffs on Chinese exports will have negative repercussions for the United States as well. First, American citizens will no longer enjoy cheap goods from China, which may raise public disapproval of Trump. Second, U.S. transnational firms investing in China will suffer. Third, even

Republicans in Congress and Trump's Cabinet may be aligned with business interests rather than with Trump, although currently they stay silent. These could be potential barriers to Trump's protectionist policy.

In addition, Trump called China (along with countries such as Japan and Germany) a currency manipulator. This claim is probably not true because China only meets one of three criteria for currency manipulation, which is having a trade surplus with the United States exceeding US\$20 billion. Moreover, China is shifting from an export-based economy to a consumption-driven economy, so the devaluation of the renminbi does not benefit China. In addition, the renminbi's designation in 2016 as one of the reserve currencies of the International Monetary Fund (IMF) shows that China's currency has become more powerful. Apart from the U.S.-China economic relationship, other issues such as the South China Sea dispute, North Korea, and Taiwan may complicate the situation in the Asia Pacific.

The changing U.S.-China economic relationship will affect other countries in the Asia Pacific region. If a trade war between China and the United States occurs, these countries will be hurt as many of them are heavily integrated into global supply chains. Some countries could potentially benefit as their exports could substitute those from China or from the United States, although the gains might not necessarily outweigh their losses. While the United States' withdrawal from the TPP may lead other countries to lean towards China, they may also be more eager to negotiate bilateral trade deals with the U.S. government.

In a nutshell, while Asia is not Trump's current policy priority, his campaign promises and the policies his administration has implemented so far indicate a challenging U.S.-Asia relationship and a changing trade architecture in the Asia Pacific. Trump's zero-sum philosophy and bilateralism pose a threat to the multilateral trading framework the WTO builds upon. The U.S. withdrawal from the TPP, coupled with China's increasing economic influence in the region, may reshape the economic order and the geopolitical realities in Asia.

New Dynamics in Asia Pacific Regional Trade Policies: A View from China

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The dramatic change of the U.S. position on the much-discussed TPP, as evidenced in President Trump honouring his campaign promise to withdraw from the agreement, is a major development for thinking about the evolution of region-wide trade arrangements. Contrary to what a majority of international commentary suggests, China and the United States are not seas apart when it comes to the search for Asia Pacific region-wide trade arrangements. I argue that the time has come for adopting a third template—one that is not a choice between the TPP and RCEP—to harmonise trade policies.

Throughout the history of globalisation, governments of major economies have pursued international trade as part of a package of power, which includes articulation and promotion of a mode of interpreting the world. As such, it was entirely normal for American leaders to use the rallying cry of “not letting China write trade rules” as a means of mitigating domestic resistance to adopting the TPP. Meanwhile, it would be too premature to rule out the possibility of the United States government returning to play a leadership role—certainly under a different title from the TPP—in organising region-wide trade rules.

China did not participate in the TPP negotiation exercise. Yet, the U.S. adoption of the original TPP with Singapore and three other economies did serve as a useful background for China to either speed up implementation or decisive action on a number of its own policies of trade/investment liberalisation. Noticeable examples include, first, the initiation of free trade zones (FTZs) in Shanghai and two other cities in 2013 and expansion of projects of similar nature to nine other provinces three years later. Second, in 2015, China started to implement a “negative list” formula in project approval for both domestic and foreign investors. By doing so, China brought itself in line with the standard practices of most countries of the Organisation for Economic Cooperation and Development (OECD). Third, since 2009, China

has moved to complete and enact FTAs with Switzerland, South Korea and Australia. Fourth, China gradually but firmly put in motion its vision of seeing a revival of the ancient Silk Road economic belt and the emergence of a Maritime Silk Road, both projects of increased international connection through Chinese investment as seeding activities. Last but not least, China became more active in shaping the agendas of the Asia Pacific Economic Cooperation (APEC) grouping and Group of 20 (G20) summits that it had hosted since 2012. The philosophy behind many of these policies is the same as that motivating the TPP.

In other words, the changes in Chinese trade policies indicate that China is moving ahead at its own pace in trade liberalisation. The orientation is very much in line with the overall Chinese foreign policy of non-alliance. The TPP negotiation and Chinese policymaking moved on parallel paths.

With the state that the TPP is in, a good deal of attention has now turned to the RCEP, of which China is a participating member. One point that deserves clarification is that the RCEP is NOT China-led (as many international news reports erroneously claim), either in the formulation of its articles or the momentum of negotiation. Like the TPP, the RCEP has its share of criticism from policy and research professionals and the general public at large.

Does China have special capacity to influence the pace of the RCEP negotiations through to its conclusion? The past record is not encouraging, and there are few indications of Chinese enthusiasm for greater levels of activism in that process, either.

In short, it is erroneous to paint China as objecting to the philosophies behind the TPP because the paths to trade liberalisation are not limited to any FTA, in the first place. Furthermore, there is little evidence to suggest a Chinese competition with the United States—or anyone else for that matter—for leadership in handling the momentum of multilateral trade negotiations.

A third way—one that is different from choosing between the TPP and RCEP—is warranted, especially given the diplomatic/political ramifications of either of those two free trade agreements. Chief among the many possible justifications for choosing a third path is that neither the United States nor China should be allowed to be seen as having “lost” in what each sees as a race for leadership. The American and Chinese markets are not only large

ones for now; they are also the ones that should be cultivated for increased trade flows throughout the Asia Pacific. The logic of the overall benefits arising from increased cross-border flows of products has to prevail over the rhetoric of projecting winners and losers in trade.

In fact, the FTAAP idea that was floated at the 2014 APEC series of meetings in Beijing is a ready template for adoption. Thus far, FTAAP has virtually no substance. But, this lack of substance is its main virtue. Using APEC membership as the scope, both China and the United States could participate in a feasibility study and negotiations towards its establishment. Among other things, the FTAAP can free smaller economies from having to choose between joining either China or the United States. The search for more productive trade rules can and indeed should return to focus on its original mission of wealth generation for all.

The Asia Pacific Trade Order and Japan

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Prime Minister Shinzo Abe, who is known for his conservative nationalist ideology, has been playing the role of a vocal advocate of the TPP internationally as well as domestically. How could he play this role despite domestic opposition? By answering this question, we can have some clues to speculate what Japan can or cannot do in constructing the regional trade order after Trump's withdrawal from the TPP.

Why did Abe commit himself to the TPP? There are two reasons. First, he believed that the TPP can be a means of boosting the Japanese economy through more global competition. This would entail rationalising the agricultural and traditional sectors as well as providing tariff-free access for Japanese manufacturers to TPP partners' markets. Second, he regarded the TPP as an important mechanism for Japan's national security, deepening Japan's alliance with the United States and maintaining the U.S. presence in the region.

But, however important the TPP was from national interest considerations, Abe felt the TPP should be sold successfully to the Japanese electorate as it was likely to be opposed by the traditional support base of his conservative Liberal Democratic Party (LDP). Abe, therefore, tried to break the opposition by selling the TPP as part of a policy package, linking it to other policy proposals. He first tried to realign the LDP's support base, ranging from the rural/agricultural sector to urban consumers, with the TPP. This strategy seemed to work fairly well.

A survey by the International Social Survey Programme (ISSP) conducted in 2013 showed that Japan had the lowest levels of opposition toward free trade. This signaled that Abe could confidently mobilise Japanese consumers as an important support base for the TPP.

Abe further tried to sell the TPP as a means of implementing his economic reforms. Japanese voters seemed to buy this argument. Our 2013 survey

showed that voters who supported the TPP tended to support the economic reform policy of the Abe administration. This suggests that the TPP was closely linked to Abe's economic reforms in the voters' perception.

Finally, Abe linked the TPP to the national security discourse. In the same survey, the voters who supported the TPP tended to support the U.S. military base on Okinawa Island, which is strategically critical for Japan's national security but is harshly opposed by local Okinawans.

This correlation in the survey results between support for the TPP and approval of the U.S. military base seems to be consistent with the security externality thesis in international relations literature. This thesis asserts that free trade agreements are more likely to arise within political-military alliances. Our survey experiment shows that a perceived security threat tends to increase support for the TPP. Respondents concerned about the negative impact of the TPP upon their incomes and employment become more supportive of the TPP if they are given some information about the security threats to the country. The security threat perception liberates people from their "pocketbook" opposition to the TPP and leads them to "socio-tropic" support for the TPP. This result suggests that Abe's linking strategy was promising. In a nutshell, Abe has successfully sold the TPP as a package deal to Japanese voters.

Now that Trump has withdrawn from the TPP, what will Japan do? Abe's official position is that he would try to persuade Trump to return to the TPP, but such a possibility seems to be dim. A TPP minus 1, that is, minus the United States, might be a possibility. But Abe seems to be unwilling to accept such a package, stressing that "the TPP would be meaningless without the United States."

Abe is also disinclined to go for alternative multilateral trade agreements such as the RCEP, which comprises Japan, China and 12 other Asian countries, plus Australia and New Zealand, but excludes the United States. RCEP has been under negotiation since 2013. Abe's lack of enthusiasm for the RCEP is because China will dominate it.

The most plausible alternative that Japan is likely to go for is a bilateral trade deal with the United States, given that Trump seems to favour bilateral, rather than multilateral, trade frameworks. However, in bilateral trade negotiations,

Japan will have to concede more to the United States since it will have less leverage than it would have had under the multilateral TPP framework. Abe might accept a bilateral trade deal that involves deep concessions to the United States, but it would be more difficult for him to get approval for it domestically. What is worse, Abe might face more difficulty in using the security linkage to sell such a deal domestically because Japan's national security concerns now go beyond the scope of the U.S.-Japan alliance, given the broader geopolitical impact of China's ascent in the region. Therefore, my pessimistic guess is that Abe may stop playing the role of a vocal advocate for a free trade order in the Asia Pacific region.

The Trump Presidency and Its Implications for Asean: An Early Analysis

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The Trump administration has been in place for slightly over two weeks and Trump's full Cabinet is yet to be in place. My analysis is, therefore, an early analysis. It comprises three parts: Trump's evolving economic policies, their impact on ASEAN and how ASEAN should respond.

Trump's evolving economic policies

Trump seems to be sticking to his key campaign pitchlines of "America First", "Make America Great" and bringing back 28 million jobs lost since the global financial crisis. From candidate Trump to President-elect Trump and the 45th president of the United States, his rhetoric has not changed much. Trump is an "angry" president and should be taken seriously. The most scary component of his policies is in the area of international trade, where U.S. presidents have large discretionary powers accorded by Congress. The Republican Party also has the majority in both houses of Congress. The party has a majority in the Supreme Court as well.

Two key policies of the Trump administration that could affect ASEAN are Trump's "New Business Model for America" and his policies on international trade. His New Business Model seeks to cut corporate income tax by 18-20 per cent, focusing on the top one per cent, increase infrastructure spending and reduce regulations. He also wants to tighten immigration policies against Muslims and skilled workers (who hold H1B visas) and impose high border taxes on multinationals which do not bring jobs back to the United States. His policy on international trade is mercantilist: "buy American and hire American". He wishes to move from multilateralism (TPP, the Transatlantic Trade and Investment Partnership or TTIP, NAFTA and even the WTO) to "fair trade" and bilateralism, where the United States can use its asymmetric bargaining power. He threatens to label China and the European Union as currency manipulators and wants to impose punitive tariffs. He wants the United States

to play a less proactive role in the IMF and the World Bank, which it helped establish in 1944.

In short, under Trump, the United States is moving away from the liberal, rules-based global economic system to isolationism, insularism and mercantilism. The last time that the United States had adopted such policies was in the 1920s, after World War I, and this led to trade wars and competitive devaluations, which precipitated the Great Depression of the 1930s.

Impact on ASEAN

The ASEAN economies are among the most open in the world. Therefore, how they will be affected by Trump's policies will depend on their degree of openness. To assess the direct impacts on these economies, their trade and financial flows should be considered.

The U.S. share of ASEAN total trade has been falling since 1990. According to IMF data, in 2015, the United States, which accounted for only 9 per cent of ASEAN's total trade, was the fourth largest trading partner of ASEAN, after "other ASEAN", China and the European Union. Hence, the adverse impacts of Trump's anti-trade policies on ASEAN as a whole are expected to be moderate. Within ASEAN, however, the Philippines, Vietnam, Singapore and Thailand are more dependent on trade with the United States than the other ASEAN countries are. Likewise, according to data from the ASEAN Secretariat, the United States accounted for 11.2 per cent of Foreign Direct Investment (FDI) inflows to ASEAN, with the bulk going to Singapore. Because of rising stock markets in the United States, which many think is a "sugar rush", foreigners are pulling out capital from the ASEAN countries.

On the other hand, ASEAN could also benefit from Trump's policies: (i) Innovators and high-tech entrepreneurs who cannot gain access to the United States are likely to shift to ASEAN; (ii) ASEAN-led, China-supported institutions (such as RCEP, the Chiang Mai Initiative Multilateralisation or CMIM and the ASEAN+3 Macroeconomic Research Office or AMRO), and China-led Institutions (such as the Asian Infrastructure Investment Bank or AIIB for short, the New Development Bank, and the One Belt, One Road initiative or OBOR for short) and the notion of ASEAN centrality are likely to gain more traction.

How should ASEAN respond?

ASEAN must rebalance growth and find non-U.S. sources of demand through several policy actions.

1. ASEAN should deepen regional integration and regional demand:
 - ASEAN should expedite the RCEP and eventually the FTAAP: Despite not being as “high quality” as the TPP, the RCEP for the first time brings together the giant economies of India and China in one FTA.
 - ASEAN should expedite the implementation of the ASEAN Economic Community (AEC) 2025 vision and the vision of a Networked, Competitive and Innovative ASEAN.
 - ASEAN should participate actively in China’s OBOR.
 - ASEAN should support the ongoing efforts by some countries to establish a TPP 11 or “TPP minus United States”. Our analysis using a computable general equilibrium model shows that TPP 11 could have significant benefits for member countries.
 - ASEAN should also negotiate bilateral and plurilateral FTAs with non-regional groupings such as the European Union. Currently, Singapore is the only ASEAN member that has an FTA with the European Union.
2. ASEAN countries should promote domestic demand, mainly consumption. This will require provision of education, healthcare and social safety nets.
3. Finally, in view of the growing vulnerability of the financial sector in the region,
 - ASEAN countries should enhance the effectiveness of the ASEAN+3 Financial Safety Net comprising the CMIM and AMRO and its complementarity with the IMF.
 - With a view to utilising the ASEAN countries’ savings for investment in the region, ASEAN should expedite the ASEAN+3 Bond Market Initiative to develop local currency bond markets and the Guarantee Mechanism.

Middle Powers in the Asia Pacific: Australia, Korea and Indonesia

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The “Trump Shock” has changed the trade policy calculus for the major economic powers in the Asia Pacific. But understanding how the regional trade architecture is evolving depends not only on leadership but also followership: How are the Asia Pacific’s middle powers, which provide the ballast for regional integration, likely to respond to the new trade environment? These economies have very different trade interests from the region’s great powers, and are likely to place considerable emphasis on multilateral rather than bilateral initiatives, particularly the ongoing RCEP negotiations. Three of the Asia Pacific’s middle powers—Australia, Korea and Indonesia—illustrate this dynamic.

The recent headwinds facing the global trade system have recast regional trading arrangements. During the 2000s, multilateral liberalisation stalled, owing to the North-South disputes marring the WTO’s Doha Round. In response, many governments turned to bilateral FTAs as a second-best trade strategy. This “turn to bilateralism” was especially pronounced in the Asia Pacific, which went from having four bilateral FTAs in 2000 to 106 by 2016. This radically transformed the regional trade architecture, from one based on multilateralism to a fragmented system of incommensurate bilateral deals.

The turn towards bilateralism has proven a major trade policy challenge for the region’s middle powers. The best known is the so-called “noodle bowl problem”, where markets become distorted by trade diversion effects, businesses face increased transaction costs, and the growth of regional production networks is inhibited. These problems especially afflict medium-sized open economies. Governments lack the negotiating coin to press for strong outcomes when negotiating bilateral FTAs with large players, putting them at a relative disadvantage. As their trade is often led by small and medium enterprises that are engaged with regional production networks, their participation in regional economic integration is also threatened.

Compounding matters, bilateral FTAs have often failed to live up to expectations. Korea has suffered problems in securing deals with its main trade partners: its bilateral negotiations with Japan have dragged on since 2003 while the United States reneged on the initially agreed text of the U.S.-Korea Free Trade Agreement (KORUS FTA) before demanding further concessions in automobiles. Australia was only able to secure deals with China and Japan by accepting partner demands to “carve out” many important sectors—particularly in agriculture and services. Indonesia has struggled to effectively participate in FTAs, securing bilateral agreements only with Japan and Pakistan. It is hard to argue that bilateral FTAs have decisively improved the trade position of any of these governments.

As a result, these governments have a clear interest in moving towards a more inclusive and integrated regional trade architecture. Multilateral liberalisation is the best fit for these countries—it allows smaller players to pool resources and secure fairer deals with major powers, and ensures an integrated and non-discriminatory set of regional rules. Indeed, all three have been active players in recent multilateral trade initiatives. Australia was a founding member and strong advocate of the TPP; Indonesia has been an enthusiastic supporter of the recently completed ASEAN Economic Community; while Korea was preparing to be the first accession to the TPP post-ratification. All three have been involved in the RCEP negotiations since they began in 2013.

The Trump Shock—and the subsequent collapse of the TPP—has somewhat undermined this agenda. The TPP was the first—and, for some parties, best—vehicle to kick-start trade multilateralism in the Asia Pacific. It set new standards in terms of WTO-Plus type trade reforms and contained an open accession mechanism that would allow the bloc to grow over time. By terminally compromising the deal, the Trump administration has deprived Asian governments of one pathway towards realising the long-held ambition of creating a “Free Trade Area of the Asia Pacific”. When read in conjunction with Britain’s exit from the European Union, it also raises fears over the prospects for trade liberalisation in an era of economic populism.

Fortunately, the existence of the RCEP agreement means other options for trade multilateralism exist. To be sure, the TPP and RCEP are quite different agreements. Where the TPP aspired to WTO-Plus style liberalisation and regulatory rule-making, RCEP negotiations instead aim to be WTO-consistent and focus on more traditional market access concerns. RCEP includes China,

India and the entire ASEAN bloc but lacks the United States and several Pacific economies. Nonetheless, what both the TPP and RCEP share is a vision to multilateralise the currently fragmented regional trade architecture. Following the collapse of the TPP, many governments are now redoubling their commitment to the RCEP process. Australia, Korea and Indonesia have all positively responded to recent Chinese calls to complete the negotiations in 2017.

Looking ahead, the RCEP agreement faces its own set of challenges. One is the absence of the United States, which remains an important export market and source of FDI for most Asian economies. For Korea and Australia, the lack of regulatory provisions in the less ambitious RCEP proposal is an issue, while Indonesia will be keen to strike a balance between investment openness and concerns about policy autonomy. But, with the TPP now dead, these governments' aspirations for trade multilateralism have no alternative outlet. The region's middle powers are now actively and enthusiastically backing a swift completion to RCEP negotiations. If RCEP is successful, it will mark a return to the multilateral trading order that has for many decades underscored the economic dynamism of the Asia Pacific.

Asia, Trump and Trade

T. J. Pempel

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Like many Americans, Asians were shocked by the election of Donald Trump. Current anxieties go beyond the normal skittishness that accompanies every American presidential transition. The Trump administration is frightening on at least three dimensions: Trump as an individual; Trump's team; and Trump's Asia policies.

Consider first his personality. Months of campaigning plus his first weeks in office reveal a man who is thin-skinned, narcissistic, racist, misogynistic and intolerant of any combination of hard facts and irrefutable evidence that challenges his imagined alternative. He is a master of the Orwellian lie—falsities repeated frequently and loudly enough to drown out challenges to his preferred “alternative facts”. Conveyers of any unwelcome narrative, such as the mainstream media, are castigated as purveyors of “fake news”.

Trump's world view is an extension of his book, “The Art of the Deal”. Interactions are all transactional. If you don't win, you lose. His campaign played the drumbeat that “America keeps losing” in its “deals” with other countries. In his universe, there are no win-win situations or positive sum outcomes, the goal of numerous international interactions. Simultaneously, his evaluations of state-to-state relations, including alliances, trade, investments, treaties, and predictability hinge on economic profitability, not comprehensive diplomatic results.

The Democrats are a hobbled minority in both houses of Congress while the establishment Republicans, despite criticising him during the campaign, have opted for a Faustian bargain. Trump gets his tweets de jour; they get tax cuts for the wealthy, deregulation, hard core conservative judges, and an end to the Affordable Care Act. America's notional system of “checks and balances” is reduced to generating only blank checks.

A second set of worries concerns personnel. Dozens of high-level Republican

diplomats and foreign policy experts signed statements denouncing Trump's foreign policy inadequacies during the campaign. Virtually all refused to serve in the new administration or have been blacklisted. Trump's trade team is a trio of protectionists: Peter Navarro, Robert Lighthizer and Wilbur Ross, three men who are also specifically hostile towards economic interactions with China. To date, Secretary of Defense James Mattis and Secretary of State Rex Tillerson display more conventional and pragmatic approaches to foreign policy, though Tillerson's promises to prevent China from using its facilities on disputed rocks and islets in the South China Seas leave even his judgment in question. Many across Asia have to ask: are there any adults in the room?

Third and finally, there are anxieties about policies toward Asia. Trump's major foreign policy obsession is the Islamic State (ISIS) terror group while a more serious existential threat, Russia, is warmly embraced. Asia is down the list of priorities. The blanket rejection of the Trans-Pacific Partnership was a blow to the seven Asian signatories. Officials in Japan and Korea are perplexed as to how best to convince the new president that their acquisition of nuclear weapons would lead to massive regional destabilisation, or that they do indeed pay huge sums to support U.S. troops based in their countries, or that their companies have created more jobs in the United States than they have "taken back" to their countries. The entire region, most conspicuously China, has a strong interest in the Paris climate deal; Trump promises to scrap it. China is criticised for driving down the value of its currency while "stealing" U.S. manufacturing jobs, contrary to all evidence. Nor do Trump and company acknowledge the benefits of low-cost Chinese goods for American consumers or of Chinese funding of U.S. deficits for the low tax lifestyles Americans now lead. Even more problematic, Trump is blind to the benefits of U.S.-China diplomatic cooperation in dealing with Somali piracy, global climate change, and nuclear proliferation or the benefits that will redound from infrastructure investments across Asia through the joint efforts of the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), the latter a creation of China. Multilateralism has been a cornerstone of East Asian economic and security progress; Trump is hostile to anything but bilateralism.

Is there any upside in this tableau of troubles? Savvy Asian leaders would do well to develop warm personal friendships with Trump to the extent possible. Play golf, promise jobs, tell him how big his hands are. Personal deprecation before Trump's massive ego is sure to shape his policy predispositions. But

Asian leaders may also find a hidden benefit in any reduced U.S. presence in the region if they can use that vacuum to explore their own cooperative efforts without the heavy shadow of American preferences looming large. Remember that following the Asian financial crisis of 1997-98 and during the George W. Bush administration the American focus on Asia was hardly positive. Yet, rather than rolling over, Asian governments took a number of independent steps to create trade agreements, forge regional currency swaps, create a regional bond market and initiate a trilateral summit among the leaders of China, Korea and Japan, among other things. Various bilateral relationships across Asia may be problematic but at a minimum all governments can now agree that they have a common problem with Trump. If they can use that external challenge to overcome some of their current differences the region may well survive his administration healthier than now looks likely.

Conclusion and Policy Recommendations

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The election of Trump as the 45th president of the United States has shocked not only Americans but also the Asia Pacific countries. Despite Trump's recent softening of his tough stance on China, especially after his meeting with Chinese President Xi Jinping on 11 April 2017, his campaign promises and some of his controversial policies have posed challenges to the existing trading framework in Asia Pacific and to U.S.-Asia relations. How should governments in the Asia Pacific region react to the uncertainties brought on by the Trump presidency in the trade architecture specifically and in other issue areas broadly? A number of policy implications can be derived from the foregoing expert analyses.

First, the liberalisation and facilitation of trade in the region can be better achieved through a multilateral trading system than bilateral ones. While multilateralism takes a rules-based approach to a wide range of trade and investment issues, bilateralism means that two countries swap preferential trading concessions with one another exclusively. Multilateral trade deals are often more difficult to reach, as shown in the failure of the WTO Doha Round and five-year long negotiations of the TPP, but they provide a transparent rules-based system in which all member countries attain equal treatment. Bilateral trade deals, undeniably, are much easier to achieve. In many cases, however, they are far from a genuine liberalisation of trade. Preferential trade agreements between two countries generate multiple sets of complicated and inconsistent rules that reduce the integrity of the global and regional trading systems. Unlike their multilateral counterparts, bilateral trade deals often reflect the asymmetrical power relationships between two trade partners.

Following from the above, the Asia Pacific countries should more actively pursue the RCEP and the FTAAP as alternatives to the TPP. The scope of the RCEP is not as broad as that of the TPP as it excludes several issues, such as limits on government regulations and state-owned enterprises

as well as wide-ranging and strict regulations on agriculture, intellectual property and the environment. However, like the TPP, the RCEP would be able to serve as a platform for regional integration through trade liberalisation, as the current member countries account for half of the world's population and 30 per cent of global GDP. More importantly, the RCEP extends the existing FTAs between ASEAN and its six trading partners. By adding more countries and providing them a level playing field, the RCEP could become a building block for a multilateral trading system in which emerging economies are able to obtain comparative advantages in the global economy.

Third, despite the importance of multilateralism in trade issues, bilateral relations with the United States matter in many dimensions, especially in the area of security. As Trump strongly favours bilateralism, governments in the region should maintain their individual warm relationships with the U.S. government. Although some expect a U.S. disengagement from the Asia Pacific under Trump, so far we have not seen a dramatic decline in the U.S. involvement in the region. So, close relationships and friendly interactions with the United States should not be abandoned.

Fourth, while the United States has played a pivotal role in the Asia Pacific for decades, governments in the region should not consider the United States as the only important trading or strategic partner and instead should deepen their cooperation with non-U.S. actors. The European Union is a good alternative, whose trade with ASEAN, in fact, exceeds that between ASEAN and the United States. The ASEAN-EU FTA, which was negotiated in 2007 but failed, should be seriously re-considered.

Finally, with Trump's "America first" philosophy, a reduced U.S. presence in the region is likely. This, however, should not be seen as a power vacuum. Instead, countries in the region should use this opportunity to deepen regional cooperation among themselves. Such cooperation should preferably be built upon existing frameworks such as ASEAN+3, ASEAN+6, and APEC so that governments need not expend efforts negotiating new institutional frameworks but can instead strengthen the existing ones.

Glossary

AIIB	Asian Infrastructure Investment Bank
APEC	Asia Pacific Economic Cooperation
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia Pacific
IMF	International Monetary Fund
NAFTA	North American Free Trade Agreement
OBOR	One Belt, One Road
RCEP	Regional Comprehensive Economic Partnership
TTP	Trans-Pacific Partnership
WTO	World Trade Organization

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The Centre for Multilateralism Studies (CMS) is a research entity within the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training, and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in Asia Pacific. It aspires to be an international knowledge hub for multilateral and regional cooperation.

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